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Report to the Chairman, Committee on the Budget, U.S. Senate

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INFORMATION SYSTEMS

SSA's Financial Management of Information Systems Needs Improvement

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GAO

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General Accounting Office
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Information Management and
Technology Division

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The Honorable Lawton Chiles
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

This report responds to your December 19, 1986, request that we review the Social Security Administration's management of its information technology systems budget. Although SSA has taken steps to improve its planning and budgeting for information systems, such as the appointment of a chief financial officer and the establishment of a Systems Review Board, specific procedures need to be established to ensure its financial management of information technology systems resources is improved.

This report includes recommendations to the Secretary of Health and Human Services. The agency was given an opportunity to comment on our draft report, and its comments are included.

As arranged with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from its issue date. At that time, we will send copies to the Secretary of Health and Human Services; the Commissioner, Social Security Administration; the Administrator, General Services Administration; and the Director, Office of Management and Budget.

Sincerely yours,

Ralph V. Carlone
Director

Executive Summary

Purpose

The Social Security Administration (SSA) depends heavily on computers to perform its mission. In 1982, the agency developed the Systems Modernization Plan to improve computer systems that were obsolete and difficult to maintain in order to provide better service to the public. In December 1986 the Chairman of the Senate Committee on the Budget requested a review of (1) SSA's management of the planning and budgeting process that supports the modernization effort, and (2) current and projected information technology systems costs. The Chairman requested the review because of continuing increases in SSA's budget requests and its budget carryovers for systems modernization projects.

GAO has previously issued two reports on SSA's information systems budget activities, including the history of obligations, the amount of accumulated budget authority, and the estimated fiscal year 1988 funding requirements. This report addresses SSA's overall management of its information systems budget. (See pp. 8 to 10.)

Background

SSA's information systems budget includes the Systems Modernization Plan, telephone systems, ongoing operations and maintenance, and other information systems projects. These are large and complex activities for which SSA has obligated over $800 million since fiscal year 1983. The Systems Modernization Plan has accounted for over 50 percent of the obligations. The plan's objectives were to improve software, equipment, and data communications and to implement an integrated data base. In 1982, the then Commissioner of SSA testified that no-year budget authority was needed to carry out the plan. Congress has granted the no-year budget authority since fiscal year 1983 to facilitate implementation of the plan and to provide funding flexibility for SSA's information systems.

Results in Brief

The agency's financial management of information systems needs improvement. Specifically, it does not facilitate presentation of financial data to assist the Congress, Office of Management and Budget, Department of Health and Human Services, and SSA management in making informed decisions about information systems projects or in determining if objectives are being achieved. GAO found that SSA has not: (1) provided complete and accurate information on all preparation and execution documents required by the Office of Management and Budget, and (2) maintained an integrated system to budget and account for information systems funds. These factors have contributed to SSA's accumulation of $214 million in carryover funds while some major goals for which the funds were intended are not being met.

In response to recommendations in GAO's March 1987 report, the SSA Commissioner appointed a Chief Financial Officer to improve financial management activities and created a Systems Review Board to improve oversight of information systems resources. While the functions of these entities were approved, the procedures to be followed in carrying them out have not yet been defined. Therefore, it is too soon to determine if these initiatives will address all areas needing improvement that GAO identified.

Principal Findings

SSA's Financial Management of Information Systems Needs Improvement

The effective acquisition of information systems to support SSA's automated data processing activities requires a sound financial management system. This system should provide consistent and complete information allowing the budget authority granted by the Congress to be compared with actual results. In previous reports, GAO stated that by the end of fiscal year 1986 SSA had accumulated over $214 million in unobligated budget authority, had continually overestimated its budget needs since fiscal year 1983, and had not achieved major systems modernization objectives.

During this review, GAO found two areas in SSA's information systems financial management process that should be improved. First, SSA has not completely or accurately prepared some budget preparation and execution documents required by the Office of Management and Budget because the agency's budget preparation and review are insufficient. For example, SSA did not submit budget documents for all planned automated data processing acquisitions in its fiscal year 1987 budget. Without complete and accurate budget and supporting documents, neither the Congress nor the oversight agencies can effectively determine the status and funding needs of SSA's information systems. (See pp. 12 to 15.)

Second, until recently SSA did not recognize the need to integrate the system it uses to maintain official financial accounting records with the system it uses to plan and budget information systems projects. For example, SSA compiles and tracks the information systems budget in four broad categories while the official accounting system is composed of over 20 common accounting classifications. Because the two systems do not record obligations on the same basis and there is no systematic

method of relating information between the two systems, SSA is not able to readily measure budget performance. Following discussions with GAO at the end of this review, the agency recognized the need for systems integration and is taking steps to facilitate comparisons until a formal system can be established. (See pp. 16 to 17.)

SSA's Corrective Actions Should Improve Financial Management of Information Systems

In early 1987, the SSA Commissioner appointed a Chief Financial Officer to set policy and assess the integrity of SSA's program and accounting systems. In June 1987, the Commissioner agreed that the large carryover balances indicate that the planning, execution, and management of information systems need improvement. At that time, the Commissioner made a commitment to better manage information systems resources so that there will be no carryover going into 1989. To help achieve this objective, the Commissioner announced in June 1987 that a Systems Review Board would be established within the Office of the Chief Financial Officer. The functions of the Office and the Board were approved by the Secretary of Health and Human Services on December 29, 1987. (See pp. 25 to 26.)

These actions should improve management oversight of major information systems initiatives. However, the procedures to be followed in carrying out these functions have not yet been defined. (See p. 26.)

Recommendations

GAO recommends that the Secretary of Health and Human Services direct the Commissioner of the Social Security Administration to establish financial management procedures that include (1) submission of more accurate and complete information in response to Office of Management and Budget information systems budget preparation and execution requirements, and (2) integration of the budgeting and accounting systems for the information systems account. (See pp. 28 to 29.)

Agency Comments

In commenting on a draft of this report, the Department of Health and Human Services generally agreed that SSA's financial management of information systems needs improvement. However, the Department believes SSA has complied with Office of Management and Budget requirements for information systems budget formulation and status reporting documentation. While GAO recognizes that SSA has prepared the required reports, these reports did not include information needed to adequately monitor the status of project funding and carryover balances. In addition, the agency did not promptly report to the Office of

Management and Budget significant changes to budgeted projects before SSA's appropriations were passed. (See pp. 17 to 24.)

The Department also commented on steps SSA has taken to improve its financial management of information systems projects. GAO has recognized these steps in the report. (See pp. 25 to 26.)

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Abbreviations

ADP	automated data processing
GAO	General Accounting Office
IMTEC	Information Management and Technology Division
OMB	Office of Management and Budget
SSA	Social Security Administration

Introduction

The Social Security Administration's (SSA) annual budget is developed in two main parts: (1) the program benefits budget that includes estimates of benefit payments, such as Supplemental Security Income and Special Benefits for Disabled Coal Miners, and (2) the limitation on administrative expenses that pays for salaries and other nonbenefit agency operating expenses. The budget for the computer support, known as the Information Technology Systems (information systems) budget, is included in the limitation on administrative expenses portion of SSA's annual budget request. This report addresses the planning, budgeting, and accounting of the information systems portion of SSA's limitation on administrative expenses budget.

SSA Given No-Year Budget Authority to Enhance Its Ability to Deal With Computer Deficiencies

In testimony before the House Subcommittee on Labor, Health and Human Services, and Education, Committee on Appropriations, in March 1982, the then Commissioner of SSA described the crisis in the state of automated data processing (ADP) at the agency and presented the Systems Modernization Plan to correct outstanding system deficiencies. The plan was largely composed of capital investments for (1) software redesign, (2) hardware upgrade and expansion, (3) data base design and integration, and (4) data communications upgrade. In proposing no-year budget authority[1] the Commissioner testified that authority was needed, "to provide funding flexibility for automatic data processing and telecommunications expenditures, especially for carrying out my plan to modernize SSA's systems." In addition, the fiscal year 1983 budget justification included the statement,

> "Since the scheduling of ADP procurements involves some uncertainty, this [no-year authority] will assist the Agency in better coping with the unpredictability of timing in major systems purchases and give us more flexibility in dealing with procurement delays. Major systems purchases are particularly prone to procurement challenges by unsuccessful bidders which can delay final procurements into the next fiscal year."

The Congress acknowledged the need, beginning with annual appropriations in Public Law 97-377, for flexibility in implementing the Systems Modernization Plan, and granted SSA no-year authority "In order to facilitate the implementation of the SSA systems modernization plan." In fiscal year 1983, SSA incorporated the no-year budget authority into its annual information systems budget process. After SSA initiated the Systems Modernization Plan and received no-year budget authority, the

[1]Funds appropriated under no-year budget authority remain available for obligation for an indefinite period of time, usually until the objectives for which the authority was made available are attained.

agency separated the information systems budget as a subaccount in the limitation on administrative expenses account. From fiscal years 1983 through 1987, over $800 million had been obligated for SSA's information systems, including systems modernization initiatives, ongoing annual information systems expenses, telephone systems, and other information systems projects.

In SSA's fiscal year 1984 budget submission, the agency requested that major telephone procurements be included in the no-year authority. The Congress appropriated no-year funds partly on the basis of SSA's justification that the no-year account was also needed to provide flexibility in the procurement of major telephone systems. In its fiscal year 1987 budget justification, SSA broadened the definition of major telephone procurements in the no-year authority to include lease, maintenance, and voice communications costs.

Objectives, Scope, and Methodology

In December 1986, the Chairman of the Senate Committee on the Budget asked us to conduct a comprehensive review of SSA's management of the information systems budget. Specifically, we were asked to review SSA's management of the planning process used to support the modernization effort, and the agency's information technology systems costs to date and planned. The Chairman requested the review because of issues raised in previous GAO reports and because of the Committee's concern over the continuing increases in SSA's carryover balance[2] and in SSA's annual ADP budget requests.

As a first product in response to the Chairman's request, we issued a report in March 1987,[3] outlining the history of SSA's information systems budget requests and obligations from fiscal year 1983 through fiscal year 1987. In response to both the House and Senate Budget Committees' need for information while assessing SSA's fiscal year 1988 budget, we issued a report in August 1987[4] that provided our analysis of SSA's (1) carryover balance from fiscal year 1987 and (2) information systems funding requirements for fiscal year 1988.

[2]SSA is authorized to carry over unobligated funds in its information systems account from year to year based on the no-year authorization the Congress has approved since fiscal year 1983.

[3]ADP Budget: SSA's Information Technology Systems Budget Requests and Obligations (GAO/IMTEC-87-15FS, Mar. 10, 1987).

[4]ADP Budget: Analysis of SSA's Fiscal Year 1988 Information Technology Systems Request (GAO/IMTEC-87-37, Aug. 6, 1987).

To complete our response to the Senate Budget Committee Chairman's request, this report focuses on our review of SSA's overall management of its information systems budget.

To assess SSA's management of the no-year authority and to determine reasons for the growth of the carryover, we:

- reviewed congressional testimony and the agency's budget justification documents to determine the support for the no-year appropriations language submitted to the Office of Management and Budget (OMB) and the Congress;
- analyzed reports from the agency's Office of Financial Resources to determine the amount of budgeted funds that were obligated for planned projects since fiscal year 1983;
- assessed the agency's financial management process to determine its effect on the Systems Modernization Plan and on the carryover; and
- interviewed key officials in the agency's Office of Systems to determine which Systems Modernization Plan projects were delayed or canceled, and to determine how these actions contributed to the increase in carryover.

With regard to SSA's management of its information systems budget, we interviewed SSA officials responsible for developing and reviewing budget documents in the agency's Office of Systems and Office of Financial Resources. We compared the project-related information in the Systems Modernization Plan with the information systems budget to assess how well the financial management system has integrated planning, budgeting, budget execution and accounting, and evaluation.

To assess the effectiveness of SSA's information systems budget process, we compared the agency's budget submissions for fiscal years 1983 through 1987 with obligations, both in the aggregate and for individual projects. We also assessed the completeness and accuracy of the agency's budget submissions by reviewing the budget exhibits for deficient and inconsistent information. To determine if SSA had revised or canceled projects and identified such action to OMB, we reviewed the budget exhibits of projects that had undergone major revisions for conformance with OMB guidelines.

Finally, we interviewed officials at the Department of Health and Human Services and OMB who were responsible for reviewing SSA's information systems budget submissions, and reviewed procedures to determine oversight responsibilities and to discuss past concerns raised by

the agencies about SSA's information systems budget. We did not review SSA's financial management of the remainder of the limitation on administrative expenses account nor did we assess the effectiveness of OMB's and Health and Human Services' oversight of the information systems account.

We have included the entire text of SSA's comments on a draft of this report in appendix II, and incorporated the comments in the body of the report where appropriate. In response to the agency's comments, we have also made some wording changes in the report to clarify our concerns about the completeness and accuracy of SSA's budget preparation and execution documents.

We conducted our review at SSA headquarters in Baltimore, Maryland, and at Health and Human Services and OMB in Washington, DC, between January 1987 and March 1988. Our work was performed in accordance with generally accepted government auditing standards.

Improvements Needed in SSA's Financial Management of Information Systems

A sound financial management system helps assure that agencies effectively manage public funds, and provides the ability to compare planned objectives with actual results. OMB Circular A-11 requires agencies to maintain a comprehensive system that integrates planning, evaluation, and budgeting. SSA's financial management of information systems funds needs to improve because it does not (1) provide all appropriate information in required OMB budget documents, (2) provide complete information on budget execution, and (3) maintain an integrated budgeting and accounting system. In March 1987, we reported that SSA has frequently changed information systems project strategies, approaches, milestones, and scope.[1] SSA's financial management system is not uniformly presenting information on these changes and hinders management oversight and control. These factors have contributed to SSA's accumulation of $214 million in carryover funds while some major goals for which the funds were intended are not being met.

Some SSA Budget Documents Do Not Include All Appropriate Information

Each year, OMB requires federal agencies to submit budget documentation for information systems projects. OMB reviews this documentation to prepare the President's Budget. We reviewed SSA's information systems budget documents from fiscal years 1983 through 1987 and found that required information was not always provided and significant changes in budget requirements were not reported to OMB. Consequently, the status and funding needs of information systems projects cannot be readily determined from SSA's budget documents.

In fiscal year 1987, OMB Circular A-11, section 43, required agencies to prepare budget exhibits that included estimates of planned obligations with a description of all anticipated acquisitions exceeding $1 million over a 6-year period for information systems capital investments, leases, and commercial services.[2] These documents are required to be submitted to Health and Human Services for initial review and approval before submission to OMB. OMB analyzes the budget submissions and develops the President's Budget based on its review. SSA officials responsible for budget preparation stated that the agency had never included new leases and commercial ADP maintenance contracts[3] in its fiscal year budget submissions because the agency did not believe there was a

[1]Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness (GAO/HRD-87-39, Mar. 18, 1987).

[2]Reporting requirements and dollar thresholds in OMB Circular A-11, section 43, have varied from fiscal year 1983 through 1987.

[3]SSA includes these contracts in the "ongoing" category of its budget requests.

requirement to do so. We reviewed SSA's fiscal year 1987 budget documentation submitted to OMB and Health and Human Services to verify that new leases and commercial ADP maintenance contracts were not included. We found that SSA had not provided budget information on four such contracts, each exceeding $1 million in costs, which were acquired in fiscal year 1987.

OMB Circular A-11, section 11,[1] requires that agencies promptly report significant changes in budget requirements to OMB before appropriations are passed. Our review of SSA's budget submissions and corresponding project obligations from fiscal year 1983 through fiscal year 1986 disclosed that 83 of 103 approved projects in the President's Budget had been canceled or reduced without being reported to OMB before appropriations were passed. Of the 83 projects, 66 had cancellations or reductions of $1 million or more. Since the no-year provision allows SSA to retain appropriated information systems funds until expended, the agency retained unused budget authority for these projects in its information systems carryover account.

For example, in one case, SSA requested and received $3.2 million for a project in fiscal year 1983, but made no obligations for the project in that year. In the fiscal year 1984 budget submission, SSA again requested and received $3.2 million for the project. SSA did not acknowledge in the narrative that the project had received $3.2 million in the previous year, or that it had been delayed. SSA continued to submit narratives that did not indicate the project's previous year funding or status, and thus the project received funding through fiscal year 1987. During this period, however, SSA made obligations of only $700,000 for the project. Because the agency did not report significant changes to OMB, and therefore to the Congress, it accumulated over $14 million in no-year budget authority for the project through fiscal year 1987.

In another case the agency canceled the remainder of a project in October 1984 that had accumulated over $50 million in no-year budget authorizations. SSA did not report the cancellation to OMB even though it occurred 14 months before SSA's fiscal year 1986 appropriation was approved by the Congress.

[1]All instructions for disclosure with respect to the budget were consolidated in section 11 for fiscal year 1987.

After review of these issues, SSA's Chief Financial Officer and other senior agency officials confirmed that the current system was inadequate and that they needed a single system to better track funds from planning through budget execution.

SSA Reported Incomplete Information on Budget Execution

OMB Circular A-34 requires agencies to report the status of open accounts in a monthly budget execution report. Since fiscal year 1985, OMB has also required Health and Human Services to submit a quarterly subsidiary report with SSA's report on budget execution. OMB required the subsidiary reports because it was concerned with delays in SSA's obligations of funds for information systems projects and the large carryover balances the agency had accumulated since fiscal year 1983. Although SSA has prepared and HHS has submitted the subsidiary reports, the information reported does not enable OMB and others to readily compare budget requests and authorizations with budget execution information.

OMB stated that the subsidiary reports should include updates to SSA's information systems financial plan, and "describe the amounts, reasons for, and projected effect of deviations on the financial plan." The subsidiary reports SSA has prepared, however, did not include the amounts that were originally approved in the President's Budget—information that would provide a baseline for identifying deviations from the financial plan. Instead, SSA only reported estimated project obligations and changes from its previous subsidiary reports.

From fiscal year 1985 through fiscal year 1987, SSA has had an average of 27 major projects a year approved in the President's Budget. However, the agency omitted from 9 to 12 of these projects each year from its subsidiary reports without stating the reasons for their omission. These projects represent an average total cost of $31.5 million each year. While omitting these projects, SSA included from 5 to 11 new projects from its operating budget[1] in the subsidiary reports, which represented an average total cost of $20.4 million. These additional projects were not included in the President's Budget and were not identified as new requirements in the subsidiary reports.

[1]SSA defines its operating budget as an update of its previous year's approved President's Budget. The operating budget for one year is submitted with the next year's President's Budget request.

Incomplete Subsidiary Reports Contributed to Increased Carryover Funds

Incomplete subsidiary reports have not enabled SSA, Health and Human Services, or OMB to adequately control SSA's increasing carryover balance. We reported in March 1987[6] that SSA had accumulated increasing amounts of budget authority for information systems, but had been unable to obligate a significant amount of this authority. As a result, the agency accumulated budget authority for projects approved under the President's Budget request even though the projects were canceled or reduced in the operating budget. Further, we reported that total actual obligations for the information systems budget remained below new budget authority amounts in fiscal years 1983, 1984, and 1985. Consequently, the agency's unobligated budget authority balance at the end of fiscal year 1983 was about $41 million, and grew to about $214 million by the end of fiscal year 1986. In addition, we reported in August 1987[7] that SSA would have approximately $181 million in unobligated budget authority at the end of fiscal year 1987.

If SSA reported the information systems projects included in the President's Budget with current information from its operating budget, SSA, Health and Human Services, and OMB would be better able to compare approved budget requests and actual budget execution with project delays and carryover balances. For example, we analyzed SSA's information systems obligations since fiscal year 1983 and found that the agency obligated an average of only 11 percent of appropriated funds for projects included in the approved President's Budget because of delays, cancellations, and changes in project scope. In addition, we examined SSA's operating budget, which is used to prepare the subsidiary report, and found that the agency had obligated an average of only 43 percent of authorized funds for projects included in its operating budget. Since SSA has no systematic method of tracking budget performance, our assessment was based on several agency documents and records including the President's Budget, operating budget, and actual obligations from the Office of Systems project tracking system.

During discussions on these issues, the Chief Financial Officer agreed that the agency needs to deal more effectively with the increasing carryover balance and said the Commissioner wants assurance that there is only one set of books for the information systems account.

[6]ADP Budget: SSA's Information Technology Systems Budget Requests and Obligations (GAO/IMTEC-87-15FS, Mar. 10, 1987).

[7]ADP Budget: Analysis of SSA's Fiscal Year 1988 Information Technology Systems Request (GAO/IMTEC-87-37, Aug. 6, 1987).

SSA's Information Systems Budget and Accounting Are Not Integrated

In February 1985,[8] we reported that having budgeting and accounting functions on the same basis would provide numerous benefits including (1) the capability to compare plans with actual results, (2) the increased financial accountability of managers, and (3) the capability to determine if program objectives are achieved. SSA's budget and accounting functions for information systems are maintained on a different basis. As a result, the budget and obligation data for information systems, which were maintained by the Office of Systems, do not relate to the official accounting system's records of obligations maintained by the Office of Financial Resources. Further, the agency does not periodically reconcile the records maintained by the two systems except on an as needed basis.

In 1985, SSA's Office of Systems, which is responsible for planning and budgeting information systems resources, implemented an informal procurement planning and project tracking system (Procurement Requisition Management Information System). The Office of Systems uses the project tracking system to plan, budget, and monitor information systems projects. This system tracks project acquisitions based on four information systems budget categories: (1) systems modernization projects, (2) ongoing operations and maintenance projects, (3) other Office of Systems projects, and (4) other user projects. SSA's official accounting system, which the Office of Financial Resources uses to report obligations of congressionally budgeted funds, is not integrated with or comparable to the Office of Systems project tracking system. While the project tracking system categorizes information systems procurements according to 4 classifications, the accounting system is composed of over 20 common accounting classifications for the information systems account, such as information systems equipment, equipment rental, and supplies.

Our review of procedures and discussions with SSA officials disclosed that the agency has not established a requirement for the Office of Systems project tracking system to be integrated with the agency's official accounting system.

Because the two systems do not record obligations on the same basis and there is no systematic method of relating information between the systems, SSA is not able to readily measure budget performance. For example, in response to a congressional inquiry for information needed for upcoming budget deliberations, we asked SSA to provide us with the

[8]Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35-A, Feb. 1985).

amount of excess funds from a project whose contract award was much less than originally budgeted. We requested this information from the Office of Financial Resources on October 6, 1986, approximately 2 weeks after contract award. At that time, an official from that office told us that the requested information was not kept in one place, and that it would probably take a few days to locate the information. On October 15, the official suggested that we review various documents to determine the amounts of excess funds for the project. We believe SSA was not able to meet our request because the project tracking system is not integrated with the agency's accounting system.

In addition, the budget analyst responsible for the information systems account in the Office of Financial Resources must manually collect and maintain records of project obligations from the Office of Systems, rather than the official accounting system. Consequently, subsidiary reports on budget execution submitted to OMB had to be prepared using the Office of Systems project tracking system rather than SSA's official accounting records. After we issued our March 1987 report,[9] which identified large variances between total budget requests and obligations, the budget analyst told us these differences occurred because the two systems had not been manually reconciled.

During discussions with SSA officials responsible for information systems budget development and accounting, they agreed that they needed an integrated system to track funds from planning through budget execution. They indicated the development of the system would be a long-term effort, but an interim manual system would be initiated.

Agency Comments and Our Evaluation

We provided a copy of a draft of this report to the Department of Health and Human Services for its review and comment. The following sections provide a synopsis of Health and Human Services' comments on the issues discussed in this chapter, and our evaluation of the comments.

Adequately Prepared OMB Budget Documents

Health and Human Services believes that SSA has complied with OMB budget preparation requirements and states that SSA has continually abided by the direction of OMB Circular A-11, section 43. The Department states that there is a difference in interpretation between SSA and GAO of the circular and the Federal Information Resources Management

[9]ADP Budget: SSA's Information Technology Systems Budget Requests and Obligations (GAO/IMTEC-87-15FS, Mar. 10, 1987).

Regulation. Further, Health and Human Services states that renewed lease or maintenance contracts for equipment or software already installed at SSA were not interpreted as new acquisitions by SSA. Health and Human Services believes that renewed leases do not come under the OMB requirements and thus the difference in interpretation between SSA and GAO. (See app. II, pp. 34, 36.)

Health and Human Services' statement that renewed lease and maintenance contracts do not come under the OMB requirements is correct, but it does not apply to the examples we cite. The four examples we cite are new lease and maintenance contracts, for which agencies are required to prepare budget preparation documents. Our position is based on the requirements of OMB Circular A-11, section 43, which states that each agency will prepare

"an agency acquisition plan, in the format of exhibit 43B, that identifies and describes anticipated acquisitions of equipment and services, where the cumulative cost . . . exceeds $1 million during the CY [current year] through BY [budget year] +4."

Further, the circular's definition of contract equipment and services specifically identifies "lease of information technology equipment," "leased telecommunications services," and "operations and maintenance." According to an official from OMB's Office of Information and Regulatory Affairs, any new lease or maintenance contract requires a 43b exhibit, so long as it meets the dollar threshold.

We did not address SSA's compliance or noncompliance with the Federal Information Resources Management Regulation in our report because we focused on the President's budgetary process for which OMB Circular A-11 is the primary guidance.

Reporting Incomplete Information on Budget Execution

The Department disagrees that SSA has reported incomplete information on budget execution. In addition, the Department does not believe that the reports should include comparisons of actuals to the plans in the original President's Budget submission. The Department states that SSA has been fully responsive in content and format to status reporting procedures established by OMB. The Department further states that the agency's periodic updates of Information Technology Systems financial plans, which were based on total Information Technology Systems project plans as submitted in each year's operating budget, provide a means of tracking actual performance to the most recently approved plans. In

addition, the Department states that it approves SSA's operating budget, which reflects changes to the President's Budget plans, and OMB also approves this budget. (See app. II, pp. 34, 36.)

Our concern is not with the preparation and approval of SSA's operating budget, but with its use in developing quarterly subsidiary reports and the resulting impact on OMB's and the Congress' ability to monitor the agency's management of information systems. During our review of SSA's Information Technology Systems subsidiary reports, we found that the comparisons of actual obligations to the latest operating plan provided only a partial explanation of the carryover balance because the operating plans do not reflect original project authorizations included in the President's Budget. We believe comparing actual obligations to operating plans instead of the original project authorizations has hindered SSA's ability to accurately estimate carryover funds, and to determine that portion of the carryover related to delayed projects and that portion related to projects that have been canceled or reduced in scope (surplus). By comparing actual obligations to original project authorizations approved as part of the President's Budget submission, the Congress, SSA, OMB, and others would have a more complete picture of the planned and actual use of Information Technology Systems funds.

OMB has also indicated that the status reports were not fully responsive to its needs. For example, a fiscal year 1986 OMB memorandum expressed concern with SSA's preparation of the quarterly subsidiary (update) reports, stating that the "updates have not made clear the effect of these [reported] deviations from the financial plan on major 'milestones' in the SMP [Systems Modernization Plan]." Further, in fiscal year 1987, OMB again expressed concern stating that because

> "the large carryover balances may indicate either problems in financial planning or changes in the character of information systems . . . . [The update] reports should explain changes in costs, completion dates, strategies, etc., including a description of the effects of these deviations from the financial plan."

We believe OMB's concern supports our position that SSA's subsidiary quarterly reports do not fully disclose the status of funds, and that comparisons of actual obligations to the information technology systems projects included in the President's Budget would enhance disclosure.

Health and Human Services also states that we do not understand how SSA formulates its information systems budget. Each year, according to Health and Human Services, SSA develops a project list for its budget

made up of continuing, deferred, and new projects. The agency then determines its new budget authority to be requested by subtracting the previous year carryover funds from the total funds required for all projects. Through this mechanism, according to Health and Human Services, SSA reports on how total funding will be obligated. (See app. II, p. 34.)

We fully understand, as explained in Health and Human Services' comments, the process SSA uses to formulate its budget. However, our concern is that, subsequent to budget formulation, the agency's process does not promptly report significant changes in budget requirements to OMB before appropriations are passed. We found that many approved projects had been canceled or reduced after budget formulation without being reported to OMB before appropriations were passed, as required by OMB Circular A-11, section 11 (see p. 13).

Health and Human Services cites one of its Inspector General letters to Senator Chiles and states that the Inspector General found that although SSA has "underestimated carryover amounts, there was no misrepresentation by SSA in the budget process." (See app. II, p. 35.) Misrepresentation is not an issue we have raised or inferred about SSA's budget process or reporting practices. Rather, we highlight areas in its process that have affected the agency's accurate and timely reporting of information systems project plans and the financial status of those plans.

Health and Human Services also states that the Inspector General found that SSA complied with all Department guidance and with OMB reporting requirements in preparing congressional appropriations documents. (See app. II, p. 35.) We did not assess or discuss whether SSA has followed Department budget preparation guidance, but rather whether it has adequately followed OMB budget guidance. The OMB guidance deals specifically with the development of the President's Budget—the document that directly relates to the Committee's concern over the carryover of information systems funds. Health and Human Services' comments do not address our position on the need for improvements in the content of reports to OMB.

Finally, Health and Human Services' comment that the Inspector General found that SSA complied with all OMB requests to provide reports on information systems budget execution (see app. II, p. 35) is correct. However, as we stated earlier, our concern is not whether SSA complied with all requests to provide the subsidiary quarterly status reports, but that the reports did not adequately provide information that would

enable SSA, Health and Human Services, and OMB to effectively monitor budget execution with project delays and carryover balances. Further, in our review of the Inspector General letter we found that it supported our work. For example, the Inspector General found certain ADP projects were questionable, and that SSA's estimates of carryover may be significantly understated. The Inspector General also raised a similar concern that SSA should better inform the Senate Appropriations Subcommittee on Labor, Health and Human Services, and Education of any significant changes in the President's Budget.

No-Year Funding Authority

Health and Human Services states that SSA's budget materials have been prepared according to the requirements in OMB Circular A-11 concerning the identification of total capital investment funding as part of annual budget submissions. (See app. II, p. 36.)

We agree with the Department that SSA has complied with OMB requirements concerning the identification of total capital investment funding in annual budget submissions. However, because the circular does not require agencies to report individual capital investment decisions for the planning and budgeting of information systems projects, we have deleted a section included in our draft report that discussed the agency's not segregating capital investments from operations and maintenance at the project level. In addition, we have deleted our recommendation that SSA should establish planning procedures that include segregating capital investments from operations and maintenance. Although we believe such an approach to capital investment planning would assist SSA, Health and Human Services, OMB, and the Congress in making informed decisions concerning information systems funding, we changed our report on this issue because OMB does not require such an approach to project planning.

Health and Human Services states that we believe SSA's no-year funding should be reserved only for large acquisitions, and not for ongoing operations and maintenance costs. The Department states that uncertainty in the procurement process that could delay large acquisitions is one of the problems no-year funding is intended to cover. (See app. II, p. 36.)

We do not believe that no-year funding should be limited in its use. Specifically, we state that the use of the no-year provision has been expanded to include operations and maintenance, and telephone systems. We do not state or infer that no-year funding should be used solely for large hardware and software acquisitions. (See p. 9.)

Health and Human Services also makes the point that because large acquisition awards usually include some period of maintenance costs, it is not feasible to separate those costs from the acquisition costs in individual project descriptions as we recommend. (See app. II, p. 36.)

We recognize that acquisition awards for capital investments may include maintenance costs, and that it may be difficult to separate the two in project descriptions. We have removed language from our report recommending that SSA should segregate capital investments from operations and maintenance for individual projects in its budget planning.

Health and Human Services states that SSA has taken several steps to assure closer monitoring of the agency's information systems operating budget. First, the Department states that the newly established Systems Review Board will monitor the execution of the information systems budget, and will ensure that funds are used properly. This Review Board will track and report on the status of information systems projects that are falling behind schedule, and will project carryover on a monthly basis. Second, according to Health and Human Services, the SSA Commissioner is committed to increasing management control of the entire planning and budgeting process and has directed the implementation of new procedures to achieve such control. (See app. II, pp. 36, 37.)

We recognize that SSA has taken several major steps to improve the monitoring of the agency's information systems operating budget. However, Health and Human Services does not specifically address our concern about the large increases in SSA's carryover balance. We continue to believe that the tracking of carryover funds could be improved if SSA reported information systems projects included in the President's Budget with current information from its operating budget. We believe our position is supported by (1) OMB concerns that SSA reports did not explain changes in costs, completion dates, strategies, or the effects of the deviations on the financial plan, and (2) Health and Human Services' Inspector General letter to Senator Chiles, which stated that SSA should better inform the Senate Appropriations Subcommittee on Labor, Health and Human Services, and Education of any significant changes in the President's Budget.

Finally, Health and Human Services disagrees with an example used in our report. The Department states that budget justification material SSA has submitted to OMB properly reflects the status of a project used as an example in our report. This project had received new budget authority from fiscal year 1983 through fiscal year 1987, but obligations were not

made until fiscal year 1986. According to Health and Human Services, the budget justification material indicated that no funds were obligated for the project in the previous fiscal year's request, and that project delays were taken into account in preparing the request for new information systems budget authority in the next fiscal year. Thus, Health and Human Services contends that funds did not accumulate during the period in question for this project. (See app. II, p. 37.)

Health and Human Services is not correct in stating that funds did not accumulate for individual projects. Each fiscal year since 1983, the Congress authorized no-year funding to allow the agency to retain funding for individual ADP projects until expended. Because SSA requested and received funds for this project each fiscal year since 1983, but made no obligations for this project until fiscal year 1986, the agency retained all the funds that were appropriated. Further, while SSA's budget material indicated that no funds were obligated for the project in the previous fiscal year, the material did not disclose that the project had been delayed in the previous fiscal year, or that funding had been approved for the project in the previous fiscal year. Rather, it appeared from the subsequent year's budget justification that this request was the first for project funding. We believe this project contributed to (1) the agency's increasing carryover fund balance each fiscal year, and (2) the consistent and significant underestimation by SSA of the projected carryover fund balance for succeeding fiscal years.

Health and Human Services expressed similar concerns about another project we cite as an example of accumulated carryover funds. (See app. II, p. 37.) We believe SSA's treatment of this project in its budget material also contributed to the accumulation of carryover funds, for the same reasons as the previously discussed project.

As Health and Human Services correctly states in its comments, there are many reasons for carryover, including delays or cancellations. However, without adequate disclosure by SSA of prior year funding authorizations and subsequent delays, OMB has been unable to determine that projects have been delayed, and that SSA has retained funding because of the no-year provision. While SSA states it has been taking project delays into account when developing budget requests, as we have discussed earlier, actual carryovers have been significantly higher than the agency's estimates. We believe this discrepancy is caused in part by the fact that the agency does not accurately reflect prior authorizations for delayed projects in its budget requests.

Integration of Information Systems Budget and Accounting

Health and Human Services recognizes that improvements are needed to integrate SSA's budget and accounting systems for the information systems account; however, it believes the example we cite to demonstrate this fact is not accurate. According to the Department, the budget analyst cited in the report did not compare 2 years of records from the Office of Systems project tracking system and the official SSA accounting system. Instead, the analyst compared SSA's fiscal year 1985 and fiscal year 1986 President's Budget submissions with the information systems operating budgets for those years. Health and Human Services states that this comparison was made because we, in our March 1987 report, stated that SSA was obligating large amounts of funds on unbudgeted projects. (See app. II, p. 38.)

We agree with the Department's position. The comparison of the two official reports was done by us, rather than by the analyst. We have clarified our report language to state that the budget analyst told us the differences we identified during our review occurred because records between the two systems had not been manually reconciled. We recognize that SSA is developing an automated system that is designed to, among other things, integrate records of individual projects with the official agency accounting system. After this automated system is developed and implemented, it should provide an automated means of tracking information systems projects and associated costs from the planning stage through budget execution.

Finally, Health and Human Services' comment concerning obligations of funds for unbudgeted projects is not germane to this report. (See app. II, p. 38.) We do not address the issue of whether or not SSA expends large amounts of funds on unbudgeted projects. However, we state that SSA did not properly identify new projects—those not included in the President's Budget—as new requirements in its subsidiary reports. (See p. 14.)

Recent Actions May Improve Oversight of Information Systems Resources

In recognition of the need to better manage information systems resources, the SSA Commissioner, on June 16, 1987, announced the creation of the Systems Review Board function within the Chief Financial Officer's operation to establish better management oversight of information systems resources. The board will be reviewing major ADP procurements and the status of major information systems initiatives. In addition, the Chief Financial Officer will have the responsibility for setting financial management policy and assessing the integrity of SSA's program and accounting systems. The Chief Financial Officer's functions were approved by the Secretary of Health and Human Services on December 29, 1987. While these functions should improve management of information systems, the procedures to be followed in carrying out the duties and responsibilities have not yet been defined.

SSA Established Financial Management Oversight Functions

In March 1987, we reported[1] that SSA's financial management problems are complex, long-standing, and adversely affecting program operations. We recommended that SSA establish a focal point for financial management that would provide the needed leadership in SSA to consolidate and enhance the importance of financial management throughout the agency. In response to our recommendation, the SSA Commissioner established the Office of the Chief Financial Officer in early 1987. The Chief Financial Officer's responsibility, as outlined in SSA's July 31, 1987, management newsletter, includes (1) accounting for how resources are used, including costs associated with the performance of activities; (2) monitoring progress and costs relative to major procurement initiatives to assure early and timely identification of problems; and (3) assessing the effectiveness and integrity of SSA's program and accounting systems.

In March and April 1987, we reported[2] that SSA had accumulated a considerable amount of carryover funds in its information systems account since fiscal year 1983 and had not achieved its major systems modernization objectives during this period. On June 16, 1987, the SSA Commissioner acknowledged that the large carryover balances indicated the agency's need to better manage information systems financial resources and made the commitment that there would be no carryover going into

[1]Social Security Administration: Stable Leadership and Better Management Needed to Improve Effectiveness (GAO/HRD-87-39, Mar. 18, 1987).

[2]ADP Budget: SSA's Information Technology Systems Budget Requests and Obligations (GAO/IMTEC-87-15FS, Mar. 10, 1987).

ADP Systems: SSA's Modernization Efforts Need Redirection (GAO/IMTEC-87-16, Apr. 10, 1987).

1989. The Commissioner also announced the establishment of the Systems Review Board function within the Chief Financial Officer's operation to assist in this area. The board will review major procurements in order to (1) determine consistency with SSA's needs; (2) assess the reasonableness, clarity, and attainability of major objectives; (3) assess the cost and reasonableness of the approach; and (4) monitor the progress of procurements to ensure that the government's investments provide expected returns.

Procedures to Improve Management of Information Systems Resources Not Yet Defined

Although the Chief Financial Officer and Systems Review Board initiatives should improve management of information systems financial resources, it is too soon to determine if these initiatives will address all areas needing improvement that we discuss in chapter 2. For example, the Systems Review Board will examine all major information systems procurements according to SSA's plans, but the procedures for this function have not yet been approved.

In addition, while SSA's plans provide the opportunity for the Chief Financial Officer to improve the agency's accounting and financial management systems, there is no specific mention of planning, budgeting, or budget execution. The "Statement of Organization, Functions, and Delegations of Authority," approved by the Secretary of Health and Human Services includes functions and responsibilities for three offices under the Chief Financial Officer. One office serves as the principal adviser to the Systems Review Board and is responsible for reviewing major information systems acquisitions. The remaining two offices' functions do not address oversight of planning, budgeting, and budget execution of the information systems account. As we described in chapter 2, there are several problems in the agency's information systems financial management processes that should be addressed. SSA will have an opportunity to address these problems, particularly after procedures for the Chief Financial Officer and the Systems Review Board have been defined.

Agency Comments and Our Evaluation

Health and Human Services states that SSA has taken a number of steps to assure closer monitoring of the information systems budget. These steps include the establishment of the Systems Review Board, and the ongoing implementation of the Integrated Financial Administrative System. Further, according to Health and Human Services, the SSA Commissioner is committed to increasing management control of the planning and budgeting processes used to support SSA's modernization effort. (See app. II, pp. 36, 37.)

Throughout this report, we acknowledge the Commissioner's commitment. We specifically note, however, that the functions of the Office of the Chief Financial Officer and the Systems Review Board should improve management oversight of major information systems initiatives.

Conclusions and Recommendations

Conclusions

SSA initiated the Systems Modernization Plan to solve its ADP crises and provide for the modernization of its systems. The agency obtained no-year budget authority to provide flexibility in executing the plan. However, because SSA's financial system does not provide accurate information on the agency's information systems activities, neither SSA, Health and Human Services, OMB, nor the Congress has been able to fully assess the progress of the modernization effort and accurately determine information systems funding requirements. Consequently, while SSA has obligated over $800 million to support its ADP operations and modernization efforts over 5 years, budget estimates and actual obligations are far apart.

SSA needs to improve its financial management system for information systems to include more complete and accurate information on OMB budget preparation and execution documents, and establish an integrated budgeting and accounting system. Because SSA has not submitted complete and accurate budget documents to OMB and Health and Human Services, and has not reported significant changes in budgeted requirements, SSA, Health and Human Services, OMB, and the Congress cannot readily determine the status and funding needs of information systems projects. Also, since SSA's budget execution reports to OMB do not report changes from the President's Budget, neither OMB nor the Congress can readily determine the reason for continued growth in the carryover. Finally, because the current budgeting and accounting systems are not integrated, management control and oversight of information systems activities are limited. Consequently, SSA must compile data from official and unofficial systems, and has been unable to accurately evaluate and report detailed progress on its information systems efforts and determine the status of projects.

In recognition of the need to better manage information systems' financial resources, SSA established a Systems Review Board under the recently established Office of the Chief Financial Officer. Creation of the Office and the Board should improve management oversight of major information systems initiatives.

Recommendations

We recommend that the Secretary of Health and Human Services direct the Commissioner of the Social Security Administration to establish financial management procedures that include:

- submission of more accurate and more complete information in response to all OMB information systems budget preparation and execution requirements; and
- integration of the budgeting and accounting systems for the information systems account.

Agency Comments and Our Evaluation

We requested written comments on a draft of this report from the Department of Health and Human Services. The Department generally agreed that SSA's financial management of information systems needs improvement. However, it believes the agency has complied with OMB information systems budget formulation and status reporting documentation. Specifically, Health and Human Services believes that SSA (1) is not required to prepare budget preparation documents for the "renewed lease or maintenance contracts for equipment or software," (2) is fully responsive to OMB budget execution status reporting requirements, and (3) is adequately reporting to OMB its planned use of carryover funds.

We do not agree with the position taken by Health and Human Services. First, OMB Circular A-11, section 43, specifically requires agencies to prepare budget documents for all leases meeting certain dollar thresholds. Although the Department is correct in asserting that budget preparation documents are not required for renewed lease or maintenance contracts, the four examples we cite were for new contracts—for which budget preparation documents are required. Second, while we agree with Health and Human Services that SSA has submitted quarterly status reports to OMB, we are concerned that the content of these reports does not enable OMB and others to readily compare SSA's budget requests and authorizations with budget execution information. Finally, Health and Human Services' comment that SSA is adequately reporting its planned use of carryover funds to OMB at the time of budget formulation does not address the issue that many projects approved after budget formulation have been canceled or reduced by SSA. These changes have not been promptly reported to OMB before SSA's appropriations were passed. In response to Health and Human Services' position that SSA has complied with OMB's reporting requirements, however, we have revised the wording in our report and recommendation to clarify our position that while required documents are prepared, they do not include all appropriate information.

Health and Human Services also commented that SSA has taken significant steps to improve its financial management of information systems projects. We have recognized these actions in our report, specifically

noting that two of these steps, the appointment of a Chief Financial Officer and the implementation of the Systems Review Board, should provide the agency effective means to improve its management practices.

A more detailed discussion of Health and Human Services' comments and our evaluation of them are included in chapters 2 and 3. The full text of the Department's comments are in appendix II.

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Request Letter

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United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510

December 19, 1986

Honorable Charles A. Bowsher
Comptroller General of the United States
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Recent reports from GAO's Information Management and Technology Division (IMTEC) on the Social Security Administration's (SSA's) Congressionally authorized System Modernization Plan (SMP) indicate that the project is not meeting its original intent to modernize ADP systems. To support SSA's original plan, the Congress established a no-year authorization process in 1983 to fund SSA's annual Information Technology System budget requests. Since that time the carry over in the no-year authorization and the Information Technology System annual budget requests have been increasing. On the other hand, many planned SMP projects have been revised, delayed, or terminated without apparent effect on budget requests. In addition, SSA's most recent plan shows that total project costs are less than original estimates. While the Committee is very supportive of SSA's modernization efforts, it has become increasingly difficult for it to determine the proposed use and need for the no-year budget authorization, and to determine why the account has continued to grow to its present balance of over $139 million.

The issues identified in past IMTEC reports have generated concern within the Committee that the SMP project management, and ADP technology procured to date and planned for the future, require an independent comprehensive review. Therefore, we are requesting a review of all ADP procurements and expenses related to SMP accomplishments and SSA estimates of future costs to complete the SMP program. The Committee would like a report on this review by July 1, 1987. To provide timely and accurate information to the Committee, Social Security officials and staff should provide full support and cooperation to the IMTEC audit team.

As an interim product, we would like your staff to analyze the ADP-related aspects of SSA's FY 1988 budget justification and provide the results of your analysis to both the Budget and Appropriations Committee staffs prior to the markup of the first concurrent resolution of the budget and to the fiscal year 1988 appropriations hearings tentatively scheduled for early March 1987 -- preferably on or before February 23, 1987.

Lawton Chiles

Chairman
Senate Budget Committee

Comments From the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

Mr. Lawrence H. Thompson
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Thompson:

Enclosed are the Department's comments on your draft report, "Information Systems: SSA's Financial Management of Information Systems Needs Improvement." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard P. Kusserow
Inspector General

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GENERAL ACCOUNTING OFFICE DRAFT REPORT, "INFORMATION SYSTEMS: SSA'S FINANCIAL MANAGEMENT OF INFORMATION SYSTEMS NEEDS IMPROVEMENT"

General

We generally agree with the General Accounting Office (GAO) that the Social Security Administration's (SSA) financial management of information systems funds needs to improve, but we do not agree with GAO's statement that SSA has not complied with the Office of Management and Budget (OMB) and the Department of Health and Human Services (HHS) information systems budget formulation and status reporting documentation requirements. Each year, SSA receives budget preparation instructions and status reporting procedures from HHS to which it has been fully responsive in content and format.

GAO also indicated (page 23) that new leases and commercial automated data processing maintenance contracts for equipment already installed within SSA require the preparation of budget documentation. On this item, SSA has continually abided by the direction of OMB Circular A-11, section 43. The issue results from a difference in interpretation between SSA and GAO of the circular and the Federal Information Resources Management Regulations. Renewed lease or maintenance contracts for equipment or software already installed at SSA were not interpreted as "new" acquisitions.

GAO expressed concern that SSA did not report cancelled or reduced projects to higher monitoring authorities. Again, SSA was fully responsive to the subsidiary quarterly status reporting mechanism established by OMB through HHS.

With regard to GAO's statement that SSA accumulated over $14 million in no-year budget authority for a project from fiscal year (FY) 1983 to FY 1987, there appears to be a misunderstanding of how the information systems budget is formulated. Each year, SSA must develop a project list that identifies where the total requested funds will be expended. The subject list is made up of continuing projects, deferred projects not initiated in the previous year and new start projects. The new budget authority requested by SSA each year is determined by subtracting the previous year funds carried over from the total funds required for all identified projects. Consequently, SSA does report via its budget formulation documentation on how total funding will be obligated on a project-by-project basis (subject to the reporting thresholds in OMB Circular A-11). This too, is in agreement with HHS budget formulation instructions.

We do not dispute the finding that SSA has carried over significant amounts of information technology systems (ITS) funds. There are many reasons for the carryover, including the following:

-- awards made at lower-than-estimated cost due to increased competition in the automated data processing (ADP)/telecommunications industry over the last 5 years;

-- changes in overall modernization strategy and in specific ITS projects due to advances in technology, resulting in delays or cancellations of certain projects; and

-- vendor protests that resulted in delays in awards.

As a final point, on June 17, 1987, the HHS Inspector General (IG) released a letter to Senator Chiles about the IG's review of SSA's ITS budget. In that letter, the IG found that even though SSA planning for certain projects was subject to question, and SSA underestimated carryover amounts, there was no misrepresentation by SSA in the budget process. In addition, the IG found that SSA complied with all HHS guidance in preparing congressional appropriations materials, and with OMB requests to provide reports on ITS budget execution.

GAO Recommendation

That the Commissioner of SSA ensure that oversight processes and operating procedures developed by the Chief Financial Officer (CFO) address financial management of information systems. Specifically, the processes and procedures should include:

-- segregation of capital investments from ongoing operations and maintenance;

-- adherence to all OMB information systems budget preparation and execution requirements, including the requirements that budget exhibits and budget execution reports are complete; and

-- integration of the budgeting and accounting systems for the information systems account.

HHS Comments

As mentioned by GAO in its draft report, OMB circular A-11 (Exhibit 43A) requires the identification of the total capital investment funding as part of annual budget submissions. SSA's budget materials have been prepared according to those requirements. However, GAO apparently believes that SSA's no-year funding should be reserved only for large hardware or software acquisitions (and not for annual operations and maintenance costs). Uncertainty in the procurement process that could cause delays in large acquisitions is one of the problems that no-year funding was intended to cover. However, since large acquisition awards usually include some period of maintenance costs or lease-to-purchase conversions, it is not feasible to separate those costs from the acquisition costs in individual project descriptions. In addition, if no-year funds were used only for large acquisitions, the total ITS budget would be fragmented into no-year and one-year funds, and would be more difficult to present and analyze.

We believe SSA has adhered to all OMB requirements. Periodic updates of SSA's ITS financial plans were prepared beginning in FY 1985 at OMB's request. The updates were based on total ITS project plans as submitted in each year's operating budget. This provides a means of tracking actual performance to the most recent approved plans (i.e., the operating budget). GAO says that these reports should compare actuals to the plans in the original President's budget (submitted about 9 months prior to the start of the fiscal year in question), but we do not agree. The plans in the operating budget had been submitted for HHS and OMB approval and became part of the next year's budget request to Congress. These changes in the previous year's President's budget plans had already received HHS and OMB review.

However, SSA has taken a number of steps to assure closer monitoring of the ITS operating budget.

Among them are:

- Within the Chief Financial Officer's operations, a Systems Review Board function has been established. The Board will determine whether proposed initiatives are well-founded and consistent with the Agency Strategic Plan. It will also monitor the execution of the ITS budget to ensure that funds are used for the intended purpose.

- Each month the Board provides the SSA management team a report on the status of budget execution that highlights projects falling behind schedule and projects carryover.

- The Chief Financial Officer is the sponsor for the Integrated Financial/Administrative System (IFAS) that will automate and integrate SSA's existing accounting and related administrative systems. When fully implemented, IFAS will improve the timeliness, accuracy, and accessibility of financial and related management information.

The Commissioner of SSA is committed to increasing management control of the entire planning and budgeting process used to support SSA's modernization effort, and many other new controls will be put in place as the process is evaluated.

Other Comments

- o On page 24, GAO states that SSA requested $3.2 million for a project in FY 1983 and each year thereafter until FY 1987, but obligated no funds on the project until FY 1986 ($700,000). It is true that each year's President's budget included plans for this project; but because of changes in scope and redirection of resources elsewhere, the project had to be delayed each year. However, each year's budget justification materials properly reflected the fact that the project would not be obligated as shown in the previous year's request. The carryover caused by delays in this project (and others) was taken into account in preparing the request for new budget authority in the next fiscal year. Funds did not "accumulate" in this project over a 5-year period.

- o On page 25, GAO discusses another project that was cancelled in October 1984 and had "accumulated" more than $50 million in no-year funds. We assume this refers to the planned purchase of the remaining leased Paradyne terminals. At about that time, SSA did change its plans from purchase of the remaining terminals to a continuation of the lease agreement. Since ITS funds were still required to pay the lease costs, large carryover amounts were not freed up by this change in strategy. In addition, the change in strategy (from purchase to lease) was reported to OMB in that year's budget preparation materials (exhibit A-11-43B). Since the change occurred prior to submission of the FY 1986 budget to Congress (October 1984 vs January 1985), there was no need to report it prior to congressional action 14 months later--the lease plan was already included in the FY 1986 President's budget.

- On page 31, GAO states that, after its March 1987 report, the budget analyst responsible for the information systems account in the Office of Financial Resources (now the Office of Budget) compared 2 years of records and found a large number of differences between records in the Office of Systems' project tracking system and the official SSA accounting system. However, this analysis did not compare those two systems. It compared SSA's FY 1985 and FY 1986 President's budget submissions with the ITS operating budgets for those years as described in the subsequent year's President's budget. This was done because GAO (in its March 1987 report) stated that SSA was obligating large amounts of funds on "unbudgeted" projects. The comparison showed that for those 2 years actual obligations for unbudgeted or over budget ADP projects (excluding telephones) comprise only 2.9 percent of total obligations (FY 1985) and 4.9 percent (FY 1986) compared to the plans included in the operating budget. In other words, based on the revised plans included in the operating budgets for FY 1985 and FY 1986, less than 5 percent of total obligations in each year were expended on "unbudgeted" (i.e., projects not appearing in the original operating budget) or over budget projects. We recognize that improvements are needed to integrate SSA's budget and accounting systems for the ITS account, but the example cited by GAO to demonstrate this fact is not accurate.

*U.S. G.P.O. 1988-201-749:80215

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